

**Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)**

**In the matter of Show Cause Notice issued to Eleven Star Securities Private Limited**

Date of Hearing	October 01, 2020
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**Order-Redacted Version**

Order dated December 28, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Eleven Star Securities Private Limited. Relevant details are given as hereunder:

Nature	Details
• Date of Action	Show Cause notice dated July 13, 2020.
• Name of Company	Eleven Star Securities Private Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. Eleven Star Securities Private Limited through its Chief Executive and Compliance Officer.
• Nature of Offence	Proceedings under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997.
• Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <ol style="list-style-type: none"><li>i. The Company has stated that it is relying on manual screening due to its limited number of clients. The Company has denied that its Compliance Officer made the statement that the Company did not maintain the database of beneficial owners, authorized persons and nominees. However, the Company has failed to substantiate that screening of beneficial owners, authorized persons and nominees of its clients is carried out. As regards the screening record of its clients and other associates against the lists of proscribed persons/ entities notified through SROs, the Company has stated that it does not maintain hard copy record due to high printing cost. Failure in deploying a screening software application as well as failure in maintaining hard copy record of screening results, constitute violations of Regulation 4(a) and Regulation 15(3) of the Regulations.</li><li>ii. The review of AML Policy submitted by the Company to the inspection team reveal that it did not contain the procedures to ensure compliance with AML/CFT Regulations and adoption of NRA 2019. Under Clause 9 of the Policy, it has been mentioned that the Company will follow the methodology of internal risk assessment to mitigate the risk highlighted in the NRA. However, no such methodology for internal risk assessment has been shared with the inspection team. The Company's AML Policy does not contain the procedures to identify the beneficial owner of its customer.</li></ol>

	<p>Furthermore, the Policy does not contain the procedures with respect to Enhanced Due Diligence. Moreover, the procedures relating to the screening of clients, nominees, authorized person and board of directors against the list of proscribed persons/entities notified through SROs were not mentioned in the Policy. It has also been observed that the procedures with respect to identification of Afghan Refugees were also not specifically covered in the Policy. The Company's specific policy and procedures relating to cross border funds transfer for the nonresident/ foreign clients were not developed. The above state of affairs indicates that the Company's AML Policy was not updated as per requirements of the AML/CFT Regulations. Therefore, violations of Regulation 4(a), Regulation 18(c) (iii) and Clause 6(iii) of AML/ CFT Guidelines have been established.</p> <p>iii. It has been observed that in case of 4 specified clients and their nominees, the Company did not verify the identity documents from NADRA Verysis; however, validation of identity documents was made from NADRA Verysis on April 20, 2020 and April 21, 2020 which confirms that validation was made subsequent to issuance of Letter of Findings by JIT. The Company has replied that it was earlier not able to validate the documents through NADRA VERISYS due to the non availability of the system. The Company should have exhausted all means to carry out validation of CNIC of its limited number of clients without any delay. Therefore, the Company has violated the requirement of Note (i) to Annexure-I to Regulation 6(4) of AML/CFT Regulations, 2018.</p> <p>In view of the foregoing reasons, I am of the considered view that multiple violations of the applicable provisions of Regulations, as narrated in the above paras, have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of <b><u>Rs. 200,000/- (Rupees Two Hundred Thousand Only)</u></b> is hereby imposed on the Company. The Company is hereby directed to fully implement counter ML and TF measures including but not limited to formulation and implementation of policies, procedures and controls to ensure that the applicable requirements contained in the AML/CFT Regulations, 2018 are meticulously complied in true letter and spirit.</p> <p>Penalty Order dated December 28, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none"> <li>Penalty Imposed</li> </ul>	Penalty of 200,000/- ( <b><u>Rupees Two Hundred Thousand only</u></b> ) was imposed.
<ul style="list-style-type: none"> <li>Current Status of Order</li> </ul>	Appeal was filed against the Order.

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